

ISSUE DATE: August 29, 1997

DOCKET NO. G-008/M-96-242

ORDER CLARIFYING DSM FINANCIAL INCENTIVE REPORT FILING  
REQUIREMENT AND APPROVING 1996 FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey  
Joel Jacobs  
Marshall Johnson  
Don Storm

Chair  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Request by Minnegasco for  
Approval of its 1996 DSM Financial Incentive

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**PROCEDURAL HISTORY**

On April 1, 1997, Minnegasco filed a request for approval of its 1996 Demand Side Management (DSM) financial incentive lost margin and bonus amount of \$193,247.

On May 12, 1997, the Minnesota Department of Public Service (the Department), treating the Company's filing as a compliance filing, signed a compliance review sheet and sent a copy to the Company.

On July 7, 1997, the Department filed a letter with the Commission explaining the procedure it followed in reviewing and signing a compliance review sheet on Minnegasco's filing.

On August 14, 1997, the Commission met to consider this matter.

**FINDINGS AND CONCLUSIONS**

The issues addressed by the Commission in this Order are:

- whether to treat Minnegasco's annual DSM financial incentive filing as a compliance filing, with no formal Commission review; and
- whether to approve Minnegasco's request for approval of its 1996 DSM financial incentive filing.

## **A. Nature of the Filing/Review Issue**

### **1. The Department**

The Department suggested that it would be appropriate to treat Minnegasco's April 1, 1997 filing as a compliance filing because the Company had calculated its 1996 lost margins and bonus following the requirements of the Commission's January 1997 Order.

The Department further explained that it had not filed comments on the filing, but instead treated it as a compliance filing, because it believes that Commission action on the filing may not be necessary. The Department explained that unlike other regulated gas utilities that have annual DSM recovery mechanisms, Minnegasco can only recover its lost margin and bonus amounts during a general rate proceeding. The Department noted that, at the time of the Company's next rate case, it and other interveners will have the opportunity to file comments and recommendations regarding recovery of Minnegasco's CIP expenses and lost margins.

The Department has clarified that it simply raised information in its July 7, 1996 letter for Commission consideration and has no objection to treating the Minnegasco filing the same way these filings have been treated in the past, i.e. as filings that require Commission approval.

### **2. Minnegasco**

Minnegasco indicated that it submitted its 1996 DSM financial incentive filing not expecting the treatment to be different from past treatment for these filings. The Company is supportive of whatever treatment the Commission determines is appropriate.

### **3. Commission Analysis and Action**

The Commission believes that the Company's filing warranted a more formal approval process than is afforded by treating the filing as a compliance filing for the following reasons:

- even after the structure of a DSM financial incentive mechanism has been approved, there are sometimes disputes over the appropriate goals, budgets, and lost margins that are used to calculate the incentive. The detailed numbers involved in calculating DSM goals, budgets, and lost margins can be difficult to retrieve at the time of a general rate proceeding.
- once an amount is placed in the CIP tracker account, the assumption is that the amount "is appropriate for recovery." For this reason, review and approval of these amounts prior to being placed in the CIP tracker account is important.

- DSM financial incentives include an “incentive” or “bonus,” which is separate from the lost margin recovery. Bonuses are profits above the Commission approved rate of return that a utility is given an opportunity to earn. Protecting ratepayers against unwarranted profits justifies careful review of bonuses prior to inclusion in the CIP tracker account.
- as part of a DSM financial incentive filing, data is provided that allows the Commission (and Department) to review the cost-effectiveness of the incentive mechanism. Regular monitoring is needed in order to make sure that the incentives are still responsive to the concerns that originally led the Commission to implement them, i.e. encouraging cost-effective utility investments in conservation.
- in the past, all DSM financial incentive filings for both gas and electric utilities that request approval to include lost margin and bonus amounts in the CIP tracker account have been approved by the Commission. For reasons of consistency, public understanding of the Commission process, and the integrity of that process, deviations to the process should be changed by an affirmative action of the Commission and not by default.

In sum, the Commission finds that the formal review of the Company's filing is appropriate and will proceed to treat the filing accordingly. Consistent with that view, the Commission will direct the Company to continue to file its annual DSM financial incentive report, which includes the calculation of lost margins and bonus amounts, with the Commission for approval.

## **B. Merits of the Company's Filing**

The Department has advised that the Company properly calculated its 1996 lost margins and bonus following the requirements of the Commission's January 1997 Order. Further, the Department confirmed that the combined lost margin and bonus amount of \$193,247 was calculated correctly and should be included in Minnegasco's CIP tracker account.

Having reviewed this matter, the Commission agrees with the Department's assessment and will approve Minnegasco's request for approval of its 1996 DSM financial incentive filing, including the Company's request to include \$193,247 in its CIP tracker account for 1996 lost margins and bonus.

## **ORDER**

1. Minnegasco shall continue to file its annual DSM financial incentive report, which includes the calculation of lost margins and bonus amounts, with the Commission for approval.
2. Minnegasco's request for approval of its 1996 DSM financial incentive filing, including the Company's request to include \$193,247 in its CIP tracker account for 1996 lost margins and bonus is hereby approved.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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